

What are the Penalties for Hiring Phantom Workers in Singapore?

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If you are running a business, you may have heard the term “phantom workers” bandied about in conversations with other business owners. Often, this is done in the context of foreign worker quotas or paying less [income tax](#) for your business.

If you are confused by the term, this article will help explain what phantom workers are and how employers in Singapore can be penalised for using phantom workers in their business.

Who are Phantom Workers?

Phantom workers are local workers who have been declared as employees of a company but who are not doing any actual work for the company. In other words, they are not genuine employees. Hiring phantom workers is generally illegal in Singapore.

Yet, you might be wondering why some companies decide to use phantom workers. There are several reasons for this, such as inflating a company’s foreign worker quota, claiming fictitious expenses to evade taxes or abusing government schemes.

First, a company can increase its foreign worker quota by hiring more local workers. This is because a company’s foreign worker quota is tied to the number of local workers it employs. The exact quota for each company will vary according to the sector they operate in.

For example, foreign workers in a manufacturing company can comprise, at most, 60% of its total workforce. This means that a manufacturing company can hire 3 foreign workers for every 2 local workers. Thus, if it appears that the manufacturing company has hired more local workers (by using phantom workers), it will be able to hire more foreign workers.

To determine the total number of local workers, the Ministry of Manpower (MOM) relies on information on the [Central Provident Fund \(CPF\) contributions](#) a company makes. MOM will use the number of CPF contributions a company makes to calculate the foreign worker quota

it is entitled to. Dishonest companies often make CPF contributions to their phantom workers to make it look like they have a larger local workforce than they have.

Between 2011 and 2014, [about 90 companies](#) were found to have made CPF contributions to phantom workers in order to increase their foreign worker quotas. The Ministry of Manpower (MOM) has since taken enforcement action against these companies.

On claiming fictitious expenses, companies may claim the CPF contributions to phantom workers as expenses in their annual income tax declarations. This allows such companies to under-declare their income for the year to reduce their taxable income, resulting in lower tax liability.

Phantom workers have also been hired to help companies abuse government schemes, such as the [Wage Credit Scheme \(WCS\)](#). The WCS was set up by the government to incentivise companies to increase their productivity.

Under the WCS, the government co-funds an employee's wage increase resulting from productivity gains. However, unscrupulous companies have used phantom workers to claim WCS grants that they were not entitled to. For example, some companies have declared fictitious wage increases for their phantom workers to make fraudulent WCS claims.

How are Employers Penalised for Hiring Phantom Workers in Singapore?

Phantom worker scams undermine the government's effort to regulate the number of foreign workers in Singapore and protect employment opportunities for locals, ensure that companies pay the correct amount of tax, and manage schemes beneficial for Singaporeans. Therefore, it is no surprise that the government takes a serious view of phantom worker scams.

MOM has established stringent checks to detect companies that use phantom workers. Suspicious companies are flagged out for on-site inspection to ascertain whether the suspected phantom workers are employed by the company.

A company making a false declaration to the authorities regarding its employees or the CPF contributions it makes may be caught by various statutes such as the Employment of Foreign Manpower Act (EFMA) or the Income Tax Act (ITA).

For example, employers caught using phantom workers to inflate their foreign worker quota may be found guilty of falsely declaring the number of local workers employed by the company in a work pass application or renewal. This is an offence under the EFMA and carries a penalty of a fine up to S\$20,000, 2 years imprisonment or both. MOM can also bar the employer from recruiting any more foreign workers in the future.

In 2019, the court introduced a sentencing framework for false declarations in a work pass renewal and application under the EFMA. It decided that such offences should be punished with imprisonment by default. A fine will be imposed only in circumstances where the accused had shown good character, expressed remorse and cooperated with the authorities.

Similarly, employers guilty of using phantom workers to under-declare their income can also be found guilty of an offence under the ITA. Such employers can be fined up to S\$5,000, jailed up to 3 years or both, in addition to paying a penalty of up to double the amount of undercharged tax.

In 2009, a company and its director were found guilty of [using phantom workers to under-declare their taxable income](#). They were each ordered to pay a penalty of S\$266,486.34, this amount being twice the undercharged tax amount, and a S\$4,000 fine under the ITA.

Employers found abusing government schemes can also be found guilty of [cheating](#) under the Penal Code. Errant employers can be imprisoned for up to 3 years, fined or given both punishments.

What Happens to the Phantom Workers If Their Employer has been Convicted?

Phantom workers can also be punished if they had colluded with the errant employer to be included on its payroll.

For example, if a phantom worker had intentionally provided his or her details to be used to inflate the company's foreign worker quota, they may be guilty of abetting any offence that the employer has committed. Typically, the punishment for abetment is the same as that for the offence that the employer is being charged with.

If there had been no collusion, such as in situations where the phantom worker's details had been obtained without his or her knowledge, or his or her details were available on public record, it is unlikely for the authorities to take action against them. However, these phantom workers may still be required to assist with investigations, such as providing statements to the authorities or appearing as witnesses at a trial.

If you suspect that your details, or those of family and friends, have been used in a phantom worker scam, do contact either [MOM](#) or [IRAS](#) to provide information.

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Phantom worker scams can carry a heavy penalty. Regardless of whether you have made an inaccurate declaration to the authorities regarding your employees or your company's CPF contributions, or have been charged with other phantom worker-related offences, you may want to contact a [criminal lawyer](#) for assistance.

An experienced criminal lawyer can advise you on the possible steps to correct an inaccurate declaration while you still can. Or if you have been charged, a criminal lawyer can represent you to help ensure a fair outcome in court.